8990 Burke Lake Rd., Burke VA 22015 Tel: 703-764-9850 Fax: 703-764-1234 Email: info@asbdc-us.org

TESTIMONY OF
DONALD T. WILSON
ASBDC PRESIDENT AND CEO

Before the Senate Committee on Small Business and Entrepreneurship

Business Startup Hurdles in Underserved Communities: Access to Venture Capital and Entrepreneurship Training

Chairman Kerry, Ranking Member Snowe, Members of the Committee, I am Donald Wilson, President and CEO of the Association of Small Business Development Centers (ASBDC). ASBDC's members are the 63 State, Regional and Territorial Small Business Development Center programs comprising America's Small Business Development Center Network. SBDC programs are located in all fifty-states, the District of Columbia, Puerto Rico, The Virgin Islands, Guam and American Samoa. The SBDC network is the federal government's largest small business management and technical assistance program with nearly 1,000 service centers nationwide serving roughly 1.2 million small business owners and aspiring entrepreneurs annually.

On behalf of the ASBDC, and the roughly 4,500 dedicated men and women serving small businesses through America's Small Business Development Center Network, I would like to thank both Chairman Kerry and Ranking member Snowe for inviting the Association to testify at this important hearing on "Business Startup Hurdles in Underserved Communities: Access to Venture Capital and Entrepreneurship."

Research earlier this decade by Robert W. Fairlie , Professor of Economics at the University of California, Santa Cruz, and Alicia M. Robb, a Research Associate in Economics at the University of California, Santa Cruz is enlightening and concerning. Using U.S. Census Bureau data, (specifically the Characteristics of Business Owners data set), Fairlie and Robb found that, among the thirteen million Americans who own a business in the United States, there are marked disparities in business ownership based on ethnicity. While 11.6 percent of whites and Asian Americans own their own business, only 6 percent of Latinos and 3.8 percent of blacks own their own business.

According to Fairlie and Robb, business failure rates during the first four years are 22.5 percent for white-owned businesses and 27 percent for black-owned firms. Thirty percent (30%) of white owned firms generate annual profits of $10,000 or more compared to 14 percent of black-owned businesses. Only 11 percent of black-owned businesses employ others compared with 21 percent of white-owned firms according to Fairlie's and Robb's research.

As concerning as those numbers are, there is encouraging data. For example:

There were 32,299 native Hawaiian- and other Pacific islander-owned businesses in 2002, up 67 percent from 1997. Their receipts were $5.2 billion, up 26 percent from 1997.

There were 1.2 million black-owned businesses in 2002, up 45 percent from 1997. Their receipts were $92.7 billion, up 30 percent from 1997.

There were 1.6 million Hispanic-owned businesses in 2002, up 31 percent from 1997. Their receipts were $226.5 billion, up 22 percent from 1997.

There were 1.1 million Asian-owned businesses in 2002, up 24 percent from 1997. Their receipts were $343.3 billion, up 13 percent from 1997.

There were 32,299 native Hawaiian- and other Pacific islander-owned businesses in 2002, up 67 percent from 1997. Their receipts were $5.2 billion, up 26 percent from 1997.

There were 206,125 American Indian- and Alaska native-owned businesses in 2002, with receipts of $26.4 billion. In the 2002 survey, businesses were asked to report ownership by an American Indian tribal entity. These businesses are considered to be government-owned entities and are therefore excluded from the estimates of American Indian- and Alaska native-owned businesses. This distinction was not made in the 1997 survey, so prior data are not directly comparable.

All of the above data is based on research by Ying Lowery at the Office of Economic Research, Office of Advocacy, U.S. Small Business Administration and published last year. Her data sources included, but were not limited to the Current Population Survey, the American Community Survey, the Economic Census, and the Survey of Business Owners

Recent data from research by the Center for Women's Business Research is similarly encouraging.

Women-owned firms, 50% or more owned by women, account for 41% of all privately held firms.

Nearly 10.4 million firms are owned by women (50% or more), employing more than 12.8 million people, and generating $1.9 trillion in sales.

For the past two decades, majority women-owned firms have continued to grow at around two times the rate of all firms (42% vs. 24%).

Fairlie and Robb in their research sought to find the factors that contributed to the disparities noted earlier between white-owned and black owned businesses, including such variables as parental ownership of a business, industry specific work experience , managerial experience and location (urban or rural). The factors that they ultimately concluded were the major contributors to the disparity in business outcomes, i..e. business success and survival, were startup capital, prior work experience in a family-owned business and education.

Businesses launched with $100,000 or more of startup capital were twice as likely to prosper, but only 1.7 percent of black-owned businesses start out with more than $100,000, compared with 4.9 percent of white-owned firms, said Fairlie. Similarly, 6.5 percent of black-owned businesses have more than $25,000, compared with 11.1 percent of white-owned firms.

Vast differences in the net worth of blacks and whites accounts for the disparity in startup capital, said Fairlie. Defined as total assets, including home equity, automobiles, and savings, net worth among blacks is about $6,000; Latino net worth averages $7,000; and white and Asian American net worth is about $70,000.

Fairlie reports that 12 percent of firms owned by Asian Americans are launched with more than $100,000 in capital, and they generate sales that are 60 percent higher than white-owned firms according to Fairlie.

According to Fairlie, "Wealth inequality leads to these low levels of capital, which is a huge factor in determining the outcome of a business."

ASBDC and America's Small Business Development Center network see these outcomes everyday. SBDCs through their consulting and training seek to overcome these disparities with appropriate intervention.

ASBDC believes that small business development centers are one of the most important resources in the nation for underserved populations who aspire to business ownership or who seek to enhance their businesses profitability or to grow their business. And apparently underserved populations share that point of view.

Forty-one percent of businesses in the U.S. are owned by women. Women, however, in 2007, comprised 45% of SBDC consulting clients nationwide.

In 2002, 6.6% of all U.S. firms were Latino owned. Latinos, however, in 2007 comprised 11.6% of SBDC consulting clients nationwide.

In 2002, blacks owned 5% of all U.S. firms. Blacks, however, in 2007, comprised 17% of SBDC consulting clients nationwide.

IN 2002, Asians and Islanders owned 4.5% of U.S. firms. In 2007 Asians and Islanders comprised 4.4 % of SBDC consulting clients nationwide.

ASBDC is extremely proud of the utilization of its resources by these underserved populations. It is important to realize that cost has been removed as a barrier for these underserved populations because SBDC consulting services are offered at no cost to the client.

The SBDC national networks commitment to improving the entrepreneurial opportunities and growth for underserved populations is not only demonstrated by these numbers but by the educational institutions that host our service centers. SBDC service centers are located at such Historically Black Colleges and Universities as Alabama State University, Alabama A & M, Chicago State University, Delaware State University, Elisabeth City State University, Fayetteville State University, Florida A & M University, Howard University, Jackson State University, Langston University in Oklahoma City, North Carolina A & T, North Carolina Central University, Prairie View A & M , Southern University of New Orleans, Southern University A & M in New Orleans, Tennessee State University, University of the Virgin Islands, and Winston Salem State University.

Similarly, SBDCs are located at such institutions as Clovis Community College in New Mexico, California State University at Fullerton, the University of California at Merced, The Inter American University in Puerto Rico, Pima Community College in Arizona, Imperial Valley College in California, Southwestern Community College in California, Sul Ross State University, University of Houston, University of Texas – San Antonio, University of Texas – Permian Basin, and Dallas County Community College, all recognized by the Hispanic Association of Colleges and Universities as Hispanic Serving Institutions.

If access to capital, prior work experience in a family-owned business and education are critical elements to success for underserved populations, SBDCs have been directly addressing these issues with their small business clients for over a quarter century .

SBDCs work closely with aspiring business owners to show them innovative avenues for securing capital. They work with existing business owners to assure that they have viable business plans and solid financials to assist them in accessing regular commercial loans, federal and state loan programs, venture capital or capital from angel investors.

It is estimated that only 4.2 percent of $19 billion in venture capital went to women-owned businesses in 2003. However it is reported that minority-owned businesses have seen an increase from several million dollars in venture capital during the early 1990s to more than $2 billion in 2004.

There is a unquestionably gender dominance in the venture capital industry. Research clearly shows that male entrepreneurs secure significantly more venture capital than female small business owners. The question is, why? Some believe it is due to a focus by venture capitalists on pre-existing relationships, or network connections. Women and minorities may not have access to these relationships or networks. Some believe that there is a perception among some venture funds that women and minority small business owners do not have the required experience or management skills. Fairlie's research may indicate that perception is somewhat justified. Women entrepreneurs may frequently lack sufficient personal financial capital. Some data indicates that a higher percentage of women owned businesses are started with funds from personal credit cards to lingering discriminator practices in credit markets. At the roundtable on Tuesday of this week, we heard testimony where a woman was required to have her 17 year old son co-sign a loan in order to secure funding. There are also indications that some women, not unlike some men, are not inclined to have venture partners because they want full control of their companies.

In many instances SBDC personnel are familiar with banking institutions in their local communities that are more likely to be willing to make loans to women, especially women who have worked with their SBDC consultants to develop solid business plans and financials. SBDC consultants often have knowledge of venture funds and can assist clients in gaining an opportunity to make a presentation to the fund partners. SBDC consultants often are aware of angel networks and may be able to help in introducing clients to angel investors.

SBDCs also can serve at times as matchmaking resources to enable aspiring entrepreneurs to gain meaningful work experience and existing business clients to find committed employees.

SBDC training programs can provide existing and aspiring entrepreneurs with the necessary business know how to help make up for their lack of business management training earlier in life.

In 2002, of those responding to the Census Bureaus Survey of Business Owners, only 23 percent had a bachelors degree and 17 percent had a graduate degree. In other words 60% had less than a Bachelors degree. Those numbers demonstrate clearly that huge numbers of small business owners may have skill sets such as being able cabinet makers or auto mechanics but they probably have had minimal access to formal business management training. This critically needed entrepreneurial training is available at SBDC service centers at nearly a thousand locations. Whether it is training on how to write a business plan, business finance, accounting, marketing, human resource management, international trade, computer training, etc., SBDCs provided entrepreneurial training to over 400,000 clients in FY 2007. Of those 400,000 plus training clients, over 44% were women and over 22% were minorities.

ASBDC believes this is an extraordinary accomplishment. Clearly, SBDCs are playing a meaningful role in helping to remove or lower barriers such as inadequate access to capital, and business education. In 2006, according to research conducted by Dr. James Chrisman of Mississippi State

University, SBDCs assisted long term consulting clients (those with five or more hours of counseling) to access $3.4 billion dollars in financing.

The ability of America’s Small business Development Centers to assist the underserved to start or grow a business is limited only by the network’s capacity. Chairman Kerry, as a result of your leadership and that of Ranking Member Snowe, congressional attention has been focused on the loss of capacity of the SBDC national network due to level program funding for much of this decade. Your leadership in fighting for increased resources for the Small Business Development Center program resulted in a meaningful increase for FY 2008, reversing years of flat funding in which inflation eroded the capacity of state SBDC programs by between twenty-five and thirty percent. The Financial Services appropriations bills passed earlier this summer by the full House and Senate Appropriations Committees further addresses the rebuilding of SBDC capacity nationwide. We are hopeful that the appropriation levels approved by the appropriations committees for FY 2009 will become law. We pledge to this committee that those resources will be wisely utilized to continue to serve underserved sectors as we have done historically and to assist them in addressing their capital access needs and their entrepreneurial training needs

At this time I would be pleased to try and respond to any questions members of the committee might have.